Notes to Annual Financial Statements

As of September 30, 2002 and 2001 (Dollars in Thousands)

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

CDC is considered a separate reporting entity of the Department of Health and Human Services (HHS), a cabinet level agency of the Executive Branch of the United States Government. CDC's main source of funding is through an annual appropriation from Congress. ATSDR is a separate entity within HHS, which is administered by CDC. The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) established the Hazardous Substances Superfund under which ATSDR operates.

The following are CDC's and ATSDR's appropriation accounts, including the purpose and availability of funds in those accounts (next page).

Appropriated Funds

75 0943	Disease Control, Research, and Training: The General Operating Appropriation; Availability: Annual
75X0943	Disease Control, Research, and Training: Building and Facilities; Availability: No-year/Indefinite
75/0943	Disease Control, Research, and Training: Royalty Income; Availability: Two year and Three year
75 2/3 0943	Disease Control, Research, and Training: International HIV/AIDS Program; Availability: Two year
75X0512.009	Grants to States for Medicaid (Vaccines for Children Allocation); Availability: No-year/Indefinite
75F3875.09	Budget Clearing Account (Suspense)
75F3885.09	Budget Clearing Account (Suspense)
75X5146	Cooperative Research and Development Agreements; Availability: No-year/Indefinite
75X6276.09	Withhold State Payroll Deductions
75R1435	Miscellaneous Receipts Account, General Fund Proprietary Interest
75R3220	Miscellaneous Receipts Account, General Fund Proprietary Receipts, Not Otherwise Classified, All Other
75 X 6500.09	Advances without Orders from Nonfederal Sources

Trust Funds

7520X8145(09)	Hazardous Substances Superfund; Availability: No-year/ Indefinite
75 8252	Hazardous Substances Superfund; Availability: Annual
75 8606	Violent Crime Reduction Trust Fund; Availability: Annual
75X8250	Gifts and Donations; Availability: No-year/Indefinite

B. Basis of Presentation

These financial statements have been prepared from the accounting records of the Centers for Disease Control and Prevention (CDC) in conformity with accounting principles generally accepted in the United States of America (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09, "Form and Content of Agency Financial Statements." These statements are therefore different from the financial reports, also prepared by CDC, pursuant to other OMB directives that are primarily used to monitor and control CDC's use of budgetary resources.

The financial statements consolidate the balances of 16 appropriations and trust fund accounts, including a number of accounts used for suspense, collection of receipts, and general governmental functions. In addition, the Statement of Net Cost identifies the Government Performance and Results Act (GPRA) programs applicable to CDC. These programs changed for FY 2002 resulting in the division of previous programs and addition of new programs. Costs are identified to the GPRA programs applicable in their budgeted year.

C. Basis of Accounting

CDC's transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to the receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

D. Entity and Nonentity Assets

Entity assets are those assets that the reporting entity holds and has the authority to use in its operations. Nonentity assets are assets the entity holds but does not have the authority to use. CDC's nonentity assets consist of collections on debts that are due to be returned to the Department of the Treasury General Fund. The CDC financial statements combine the entity and nonentity assets. Note 2 "Nonentity Assets," Note 3 "Fund Balance with Treasury," Note 4 "Cash and Other Monetary Assets," Note 5 "Accounts Receivable, Net," and Note 9 "Other Assets" report the entity and nonentity assets.

E. Funds with Treasury and Cash

CDC maintains all cash accounts with the U.S. Department of the Treasury. The account, "Fund Balance with Treasury," represents appropriated, trust, and other funds available to pay current liabilities. The U.S. Department of the Treasury processes cash receipts and disbursements for CDC.

F. Accounts Receivable

Accounts receivable consist of amounts owed to CDC and ATSDR by other federal agencies and the public. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts. The allowance for loss is based on past collection experience.

G. Advances to Grantees/Accrued Grant Liability

Grant Advances are cash outlays made by CDC to its grantees. An accrued grant liability occurs when the year-end grant accrual exceeds advances to grantees outstanding for the year.

The CDC's grant programs are classified into two categories, "programs not subject to the expense accrual" and "programs subject to the expense accrual."

Programs Not Subject to the Expense Accrual: These programs are formula grants under which states provide a variety of services or payments to individuals and federal agencies that are precluded from requiring expense reporting. Under these formula grants, states receive a fixed sum pursuant to authorizing legislation and draw down based on cash needs. Accordingly, these programs operate on an allocation basis as opposed to a reimbursable basis. Therefore, they are not subject to an expense accrual.

Programs Subject to the Expense Accrual: For programs subject to the accrual, grantees draw funds (recorded as Advances to Grantees in CDC's accounting systems) as bills or salary payments come due. The grantee pays the bills or salary and reports the payments to CDC quarterly on the SF 272 (recorded as an expense and a reduction to the advance balance in the accounting systems). The process adopted by CDC to estimate a year-end grant accrual relies on historical spending patterns to predict unreported grantee expenditures. The method breaks the accrual down into two components.

The first component represents the amount of expenditures expected to be reported by the grantees for the fourth quarter ending September 30. It is calculated with a data regression model, which uses historical grantee advance and expenditure data.

To estimate the second component, expenses Incurred But Not Reported (IBNR), HHS gathered information on spending patterns from four different groups of grantees to determine if they had unreported expenses at year-end and if so, in what amounts. As a result, HHS determined that grantees typically had year-end IBNR equal to approximately two weeks of annual expenditures. Together, the estimated amount of expenditures expected to be reported by grantees for the fourth quarter ending September 30 and the estimated IBNR represent the total amount reported for CDC for accrued grants. (See Note 6 "Advances to Grantees/ Accrued Grant Liability.")

H. Inventory and Related Property

Inventory and Related Property includes stockpile materials. Inventories are recorded as assets when purchased and are expensed when they are consumed or sold. CDC is required by the Omnibus Budget Reconciliation Act, effective October 1, 1993, to maintain a vaccine stockpile to meet unanticipated needs for the vaccines. Stockpile materials mainly represent vaccines held for use in case of a national emergency. CDC sells vaccines from the stockpile to state, local, and territorial health departments. The vaccine stockpile is maintained by the companies that manufacture the vaccines. The vaccine stockpile is valued at historical cost using a specific identification cost flow assumption.

I. General Property, Plant, and Equipment

The basis for recording purchased General Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to a form and location suitable for its intended use. The cost of PP&E acquired under a capital lease is the amount recognized as a liability for the capital lease at its inception. The cost of PP&E acquired through donation is the estimated fair value when acquired. The cost of PP&E transferred from other federal entities is the net book value of the transferring entity. All PP&E with an initial acquisition cost of $25,000 or more and an estimated useful life of two years or greater are capitalized. PP&E are depreciated on a straight-line basis over the estimated useful life of the item. Land and land rights, including permanent improvements, are not depreciated. Normal maintenance and repair costs are expensed as incurred.

J. Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Because CDC is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation. "Liabilities Covered by Budgetary Resources" and "Liabilities Not Covered by Budgetary Resources" are combined on the balance sheet. "Liabilities Not Covered by Budgetary Resources" are broken out in Note 10, "Liabilities not Covered by Budgetary Resources," Note 11, "Federal Employees' and Veterans' Benefits," Note 13, "Accrued Payroll and Benefits," and Note 14, "Other Liabilities."

Liabilities Not Covered by Budgetary Resources are incurred when funding has not yet been made available through Congressional appropriations or current earnings. CDC recognizes such liabilities for employee annual leave earned but not taken, and amounts billed by the Department of Labor for Federal Employees' Compensation Act (FECA) disability payments.

K. Federal Employees' and Veterans' Benefits

Federal employees' and veterans' benefits consist of the actuarial portions of future benefits earned by federal employees and veterans, but not yet due and payable. These actuarial costs apply to FECA.

In addition, CDC has costs for pensions, other retirement benefits, and other post-employment benefits. These benefits are normally administered by the Office of Personnel Management and not by CDC. CDC also has employees who participate in the HHS-administered Commissioned Corps Retirement System. Because CDC does not administer the benefit plans, CDC does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other postemployment benefits. CDC does, however, recognize the imputed costs and imputed financing related to these benefits in the Consolidating Statement of Net Cost and the Consolidating Statement of Changes in Net Position, respectively. CDC recognizes the actuarial liability for future workers' compensation benefits as provided for in the Federal Employees' Compensation Act.

Pensions: Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most CDC employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, CDC makes matching contributions equal to 8.51% of basic pay. For FERS employees, CDC contributes the employer's matching share for Social Security and contributes an amount equal to 1% of employee pay to a savings plan and matches up to an additional 4% of pay. Most employees hired after December 31, 1983, are covered by FERS. The Office of Personnel Management reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to federal employees.

Other Retirement Benefits: Retirement benefits other than pensions (ORB) are all forms of benefits to retirees or their beneficiaries provided outside the pension plan. Examples include health and life insurance. Retirement health care benefits are the primary expenses of this type.

Other Postemployment Benefits: Postemployment benefits other than pensions (OPEB) include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Inactive employees are those who are not currently rendering services to their employers and who have not been terminated, but who are not eligible for an immediate annuity, including those temporarily laid off or disabled. OPEB includes salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment and workers' compensation benefits paid by the employer entity.

Future workers' compensation benefits: The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approval of compensation cases. The actuarial liability is computed by the U.S. Department of Labor using historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. The projected annual benefit payments are discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. (See Note 11: "Federal Employees' and Veterans' Benefits.")

L. Accrued Payroll and Benefits

"Accrued Workers Compensation (including FECA)" is for amounts due to former or inactive employees and beneficiaries. This can include salary continuation, severance benefits, counseling, and funded unemployment liability for federal employees.

"Accrued Payroll and Leave" is the estimated liability for salaries, wages, funded annual leave, and sick leave that has been earned but is unpaid.

"Payroll Withholding" is the amount withheld from employees' salary for taxes, employee benefit contributions and the employers' portion of payroll taxes and benefit contribution, such as retirement, Thrift Saving Plan, and health and life insurance.

"Liability for Pension Benefits for Administering Agency" is the amount due from administering agencies to eligible federal civilian or military employees or their beneficiaries, to benefit carriers for providing health insurance and for life insurance due to eligible beneficiaries. CDC is an administering agency for the Commissioned Corps. This is not an actuarial liability.

"Other" covers the amounts of unfunded employment related liabilities not covered by the current year's budget authority and not otherwise classified above. (See Note 13 "Accrued Payroll and Benefits.")

M. Obligations Related to Canceled Appropriations

Payments may be required of up to 1% of current year appropriations for valid obligations incurred against prior year appropriations that have been canceled. The total potential payments related to canceled appropriations is estimated to be $40.4 million and $38.7 million as of September 30, 2002 and 2001, respectively.

N. Revenues and Other Financing Sources

Funding for CDC is classified as revenue or other financing sources. Revenue is an inflow of resources that the government demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. Exchange revenues arise when a government entity provides goods and services to the public or to another government entity for a price. Another term for "exchange revenue" is "earned revenue." Nonexchange revenues arise primarily from exercise of the government's power to demand payments from the public (e.g., taxes, duties, fines, and penalties) but also include donations. Other financing sources include appropriations used, transfers of assets from other government entities, and imputed financing.

Exchange Revenue

CDC recognizes exchange revenue related to reimbursable agreements when the related expenses are incurred. CDC also collects various user fees to offset the cost of providing services. Exchange revenue is reported in the Consolidating Statement of Net Cost.

Nonexchange Revenue

Nonexchange revenues may include penalties, fines, and administrative fees and other inflows of resources arising from the government's power to demand payments, as well as voluntary donations. Nonexchange revenue is recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets. It is recognized to the extent that the collection is probable and the amount is measurable. CDC reports nonexchange revenue on the Consolidating Statement of Changes in Net Position.

Other Financing Sources

Congressional appropriations are the primary funding source for most of CDC's programs. For financial statement purposes, appropriations used are recognized as a financing source as expenses are incurred or funded liabilities are established.

Imputed financing is costs incurred by one federal entity that are paid for by another federal entity. These are also known as inter-entity costs. OMB has limited the inter-entity costs to be recognized by federal agencies to the following: (1) employee's pension benefits; (2) the health, life insurance, and other benefits for retired employees; (3) other postemployment benefits for retired, terminated, and inactive employees, which include severance payments, training and counseling, continued health care, and unemployment and workers' compensation under the Federal Employees' Compensation Act; and (4) losses in litigation proceedings (FASAB Interpretation No. 2, "Accounting for Treasury Judgment Fund transactions").

O. Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to CDC. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not, and the related future outflow or sacrifice is measurable. For pending, threatened, or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely to occur, and the related future outflow or sacrifice of resources is measurable.

P. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Q. Intragovernmental Relationships and Transactions

In the course of its operations, CDC has relationships and financial transactions with numerous federal agencies. The more prominent of those relationships are with other operating divisions of HHS. CDC also has relationships with agencies such as the General Services Administration and the Environmental Protection Agency, among others. At the governmentwide level, the assets, liabilities, expenses, and revenues related to those transactions are eliminated. Transactions between HHS operating divisions are eliminated in the HHS consolidated financial statements.

Note 2: Nonentity Assets

Nonentity assets are funds that CDC holds but does not have authority to use. Nonentity assets include withholdings for state payroll deductions, collections of interest, and other miscellaneous receipts.

Nonentity Assets

	FY 2002				FY 2001
	Health	Natural Resources and Environment	Intra-OPDIV Eliminations	Consolidated Total	Consolidated Total
Intragovernmental:					
Fund balance with Treasury	$ 1,958	$ —	$ —	$ 1,958	$ —
Accounts receivable	12	—	—	12	13
Total intragovernmental	1,970	—	—	1,970	13
Accounts receivable	444	—	—	444	438
Total nonentity assets	2,414	—	—	2,414	451
Total entity assets	5,077,388	19,920	(596)	5,096,712	4,007,022
Total assets	$5,079,802	$19,920	($596)	$5,099,126	$4,007,473

Note 3: Fund Balance with Treasury

CDC's undisbursed account balances at September 30, 2002 and 2001, are listed below by fund type and by status of funds. Other fund types include balances in deposit, suspense, clearing, and related nonspending accounts.

Fund Balance with Treasury

	FY 2002			FY 2001
Fund balances	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
Trust funds	$ 23,872	$19,225	$ 43,097	$ 76,533
Appropriated funds	4,556,944	—	4,556,944	3,575,033
Other fund types	6,962	—	6,962	1,682
Total	$4,587,778	$19,225	$4,607,003	$3,653,248

	FY 2002			FY 2001
Status of fund balance with Treasury	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
Unobligated balance:				
Available	$ 76,286	$ —	$ 76,286	$ 50,382
Unavailable	9,514	7,186	16,700	18,756
Obligated balance not yet disbursed	4,501,978	12,039	4,514,017	3,584,110
Total	$4,587,778	$19,225	$4,607,003	$3,653,248

Note 4: Cash and Other Monetary Assets

CDC held entity cash assets totaling $113 and $117, at September 30, 2002 and 2001, respectively. Such balances include imprest funds and undeposited collections.

Note 5: Accounts Receivable, Net

CDC's accounts receivable consists mainly of amounts due for goods and services provided to other federal agencies and public and foreign entities. CDC receivables also include miscellaneous refunds due to CDC resulting from overpayments to vendors or to current or noncurrent employees. CDC only establishes an allowance for uncollectible accounts for governmental receivables. The allowance is based on past collection experience and an analysis of the outstanding balances.

ATSDR receives funding from the invested Superfund trust fund. In order to maintain sound cash management principles, funds remain invested until needed for disbursement to maximize interest earned. This practice can result in an accounts receivable for funds to cover disbursements that have not been transferred.

The FY 2002 increase in accounts receivable was mostly due to an increase in accounts receivable for reimbursable agreements and an outstanding receivable for funds due for ATSDR from the Superfund trust fund.

CDC's accounts receivable at September 30, 2002 and 2001, are summarized in the following table, next page:

Accounts Receivable, Net

	Ending Balance, Gross Receivables	Allowance	Net Receivables, Combined	Intra-Entity Eliminations	Net Receivables, Consolidated
At September 30, 2002					
Intragovernmental					
Entity					
Health	$83,199	$ —	$83,199	($ 596)	$82,603
Nonentity					
Health	12	—	12	—	12
Total Intragovernmental	$83,211	$ —	$83,211	($ 596)	$82,615
With the Public					
Entity					
Health	$ 7,355	($ 53)	$ 7,302	$ —	$ 7,302
Natural resources and the environment	2	—	2	—	2
Nonentity					
Health	444	—	444	—	444
Total, with the public	$ 7,801	($ 53)	$ 7,748	$ —	$ 7,748
At September 30, 2001					
Intragovernmental					
Entity					
Health	$36,380	$ —	$36,380	($1,161)	$35,219
Natural resources and the environment	4,719	—	4,719	—	4,719
Nonentity					
Health	13	—	13	—	13
Total Intragovernmental	$41,112	$ —	$41,112	($1,161)	$39,951
With the public					
Entity					
Health	$ 9,306	($114)	$ 9,192	$ —	$ 9,192
Natural resources and the environment	217	—	217	—	217
Nonentity					
Health	438	—	438	—	438
Total, with the public	$ 9,961	($114)	$ 9,847	$ —	$ 9,847

Note 6: Advances to Grantees/ Accrued Grant Liability

Grant advances are liquidated upon the grantee's reporting of expenditures on the quarterly SF-272 Report (Federal Cash Transaction Report). In many cases, these reports are received several months after the grantee actually incurs the expense, resulting in an understated grant expense in the financial statements. To mitigate this, HHS developed departmentwide procedures used by its OPDIVs to estimate and accrue amounts due grantees for their expenses, both realized and accrued, through fiscal year-end.

At fiscal year-end when CDC records the estimated accrual for amounts due to grantees for their expenses, if the amount of outstanding advances exceeds the amount of the accrual, CDC reports an asset for "Advances to Grantees." Otherwise, CDC reports a liability called "Accrued Grant Liability," equal to the amount that the accrual exceeds the outstanding advances. For additional information on this subject see Note 1 under "Advances to Grantees/Accrued Grant Liability."

Net grant advances increased in FY 2002 because of an increase in the estimated grant accrual and a decrease in grant advances outstanding. All advances other than grant advances are reported in the "Other Assets" category, as detailed in Note 9.

Accrued Grant Liability

	FY 2002			FY 2001
	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
Grant advances (liability) outstanding (before year-end grant accrual)	$319,006	($1,154)	$317,852	$346,388
Less: estimated accrual for amounts due to grantees	545,741	1,856	547,597	495,539
Net grant advances (liability)	($226,735)	($3,010)	($229,745)	($149,151)

Note 7: Inventory and Related Property, Net

CDC is mandated by law to maintain a vaccine stockpile to meet unanticipated needs for the vaccines, and for national emergencies. Vaccine stockpiles are maintained by the vaccine manufacturers and consist of several types of vaccines. CDC may only sell these vaccines to state, local, or territorial health departments. The health departments order vaccines through CDC, and CDC notifies the manufacturer of the orders. The manufacturer ships the vaccines directly to the health departments. CDC's vaccine stockpile is valued at historical cost using a specific identification cost flow assumption.

CDC's contracts with the vaccine manufacturers generally state that a manufacturer's excise tax will be paid upon delivery of the vaccines. The excise tax funds a vaccine injury compensation program that is part of the National Vaccine Injury Compensation Program (VICP). The VICP, established by the Public Health Service Act, provides no-fault compensation for certain individuals who have been injured by specific childhood vaccines. The Taxpayer Relief Act of 1997 provides that the excise tax on all covered vaccines is $0.75 per dose and that combinations of vaccines are subject to an excise tax, which is the sum of amounts for each vaccine included in the combination. The excise tax is paid by the health departments when they purchase the vaccines from CDC. Based on the number of doses in the vaccine stockpile at the end of FY 2002, the excise tax payable is $5,774.

During FY 2002, CDC changed its accounting practice for the biological materials inventory it maintained in prior years in accordance with SFFAS 3, *Accounting for Inventory and Related Property*. In FY 2002, CDC expensed the items reported in FY 2001 as operating materials and supplies held for future use. See Note 18, Cumulative Effect of Changes in Accounting Principles and Prior Period Adjustment.

CDC's inventory and related property, net at September 30, 2002 and 2001, are summarized in the following table:

Inventory and Related Property, Net

	Health	
	FY 2002	FY 2001
Operating materials and supplies (OMS) held for future use	$ —	$ 8,099
Total OMS	—	8,099
Stockpile materials held for emergency	29,555	18,488
Total inventory and related property, net	$29,555	$26,587

Note 8: General Property, Plant, and Equipment, Net

Balances for the major categories of CDC Property, Plant, and Equipment at September 30, 2002 and 2001, are listed below:

See the disclosure, "Schedule of Deferred Maintenance" in the Required Supplementary Information section for information on deferred maintenance for General Property, Plant, and Equipment.

General Property, Plant, and Equipment, Net

			FY 2002			FY 2001
Property, Plant, and Equipment	Depreciation Method	Estimated Useful Life	Acquisition Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land and land rights	N/A	N/A	$ 19,883	$ —	$ 19,883	$ 19,882
Construction in progress	N/A	N/A	74,765	—	74,765	66,632
Buildings, facilities, and other structures	Straight line	31.5 years	207,457	(94,478)	112,979	67,713
Equipment	Straight line	3–20 years	105,493	(45,388)	60,105	49,818
Internal use software	Straight line	5 years	187	—	187	—
Capital leases	Straight line	31.5 years	97,082	(5,384)	91,698	65,862
Health total			504,867	(145,250)	359,617	269,907
Equipment, Natural Resources and Environment	Straight line	7–15 years	1,899	(1,206)	693	924
Total			$506,766	($146,456)	$360,310	$270,831

Note 9: Other Assets

CDC's other assets as of September 30, 2002 and 2001, comprise the following, all of which are considered entity assets:

Other Assets

	Health	
	FY 2002	FY 2001
Intragovernmental		
Advances to other federal entities	$10,232	$4,849
Combined, intragovernmental	10,232	4,849
Less: intra-entity eliminations	—	—
Consolidated, intragovernmental	$10,232	$4,849
With the Public		
Travel advances and emergency employee payments	$ 1,482	$1,574
Advances to others	68	469
Combined, with the public	$ 1,550	$2,043

Note 10: Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. CDC's liabilities not covered by budgetary resources primarily include capital lease liabilities; accrued leave, which is funded as it is taken; and the actuarial liability determined by the Department of Labor but not yet billed.

Liabilities Not Covered by Budgetary Resources

	Health	Natural Resources and Environment	Intra-OPDIV Eliminations	FY 2002 Consolidated Total	FY 2001 Consolidated Total
Intragovernmental:					
Capital lease liability	$ 94,570	$ —	$ —	$ 94,570	$ 67,784
Other	456	—	—	456	16
Total intragovernmental	95,026	—	—	95,026	67,800
Environmental and disposal liability	3,385	—	—	3,385	—
Federal employees' and veterans' benefits	17,077	962	—	18,039	18,752
Accrued leave	51,038	—	—	51,038	45,547
Total liabilities not covered by budgetary resources	166,526	962	—	167,488	132,099
Total liabilities covered by budgetary resources	604,326	3,835	(596)	607,565	423,172
Total liabilities	$770,852	$4,797	($596)	$775,053	$555,271

Note 11: Federal Employees' and Veterans' Benefits

The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approval of compensation cases. The liability is determined by a method that uses historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions used for discounting in 2002 was 5.20% in year 1, 5.20% in year 2, and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs), and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year dollars. The compensation COLAs and CPIMs used in projections were as follows:

Future Workers' Compensation Benefits

Fiscal Year	COLA	CPIM
2003	1.80%	4.31%
2004	2.67%	4.01%
2005	2.40%	4.01%
2006+	2.40%	4.01%

Workers' compensation benefits are liabilities not covered by budgetary resources. CDC's Federal Employees' and Veterans' Benefits at September 30, 2002 and 2001, are summarized in the following table:

Actuarial FECA Liability

With the Public	FY 2002	FY 2001
Liabilities not covered by budgetary resources		
Future workers' compensation benefits	$18,039	$18,752
Total federal employees' and veterans' benefits	$18,039	$18,752

Note 12: Environmental and Disposal Costs

Environmental and Disposal Costs are the costs of removing, containing, and disposing of (1) hazardous waste from property, or (2) material or property, or both, that consists of hazardous waste at permanent or temporary closure or shutdown of associated Property, Plant, and Equipment. In accordance with SFFAS 5 *Accounting for Liabilities of the Federal Government* and SFFAS 6 *Property, Plant, and Equipment*, CDC has recognized a liability for cleanup of $3,385. The following table presents CDC cleanup costs; the total estimated cleanup cost is the liability recognized:

Environmental and Disposal Costs

With the Public			
Project	Method for Assigning Cost	Liabilities not Covered by Budgetary Resources	FY 2002 Total
Various	Estimated cost of similar remediation	$3,385	$3,385

Note 13: Accrued Payroll and Benefits

Accrued funded payroll is the estimated liability for salaries and wages and other benefits of civilians and commissioned officers that have been incurred but are unpaid at the end of the fiscal year. CDC's accrued payroll and benefits at September 30, 2002 and 2001, are summarized in the next table:

Accrued Payroll and Benefits

Intragovernmental	FY 2002 Health	FY 2002 Natural Resources and Environment	FY 2002 Consolidated Total
Liabilities covered by budgetary resources			
Accrued payroll	$ 4,917	$ —	$ 4,917
Total liabilities covered by budgetary resources	4,917	—	4,917
Total, intragovernmental	$ 4,917	$ —	$ 4,917
With the Public			
Liabilities covered by budgetary resources			
Accrued payroll	$45,728	$ 43	$45,771
Total liabilities covered by budgetary resources	45,728	43	45,771
Liabilities not covered by budgetary resources			
Accrued leave	51,038	—	51,038
Total liabilities not covered by budgetary resources	51,038	—	51,038
Total, with the public	$96,766	$43	$96,809

Intragovernmental	FY 2001 Health	FY 2001 Natural Resources and Environment	FY 2001 Consolidated Total
Liabilities covered by budgetary resources			
Accrued payroll	$ 3,827	$ 213	$ 4,040
Accrued workers compensation	3,327	—	3,327
Total liabilities covered by budgetary resources	7,154	213	7,367
Total, intragovernmental	$ 7,154	$ 213	$ 7,367
With the public			
Liabilities covered by budgetary resources			
Accrued payroll	$33,816	$1,979	$35,795
Total liabilities covered by budgetary resources	33,816	1,979	35,795
Liabilities not covered by budgetary resources			
Accrued leave	43,282	2,265	45,547
Total liabilities not covered by budgetary resources	43,282	2,265	45,547
Total, with the public	$77,098	$4,244	$81,342

Note 14: Other Liabilities

Other liabilities covered by budgetary resources include deferred revenue that represents advances received from other federal agencies and the public under reimbursable agreements in excess of expenses incurred in the execution of the agreements. All other liabilities covered by budgetary resources are considered current. CDC's Other Liabilities at September 30, 2002 and 2001, are summarized in the following table:

Other Liabilities and Deferred Revenue

	FY 2002			FY 2001
	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
Intragovernmental				
Liabilities covered by budgetary resources				
Liabilities for deposit funds, clearing accounts, and undeposited collections	$ 1,808	$ —	$ 1,808	$14,760
Deferred revenue	15,836	—	15,836	17,013
Other	14,893	9	14,902	7,276
Total intragovernmental liabilities covered by budgetary resources	32,537	9	32,546	39,049
Liabilities not covered by budgetary resources				
Capital lease liability	94,570	—	94,570	67,784
Other	456	—	456	16
Total intragovernmental liabilities not covered by budgetary resources	95,026	—	95,026	67,800
Total other intragovernmental liabilities	127,563	9	127,572	106,849
With the public				
Liabilities covered by budgetary resources				
Liabilities for deposit funds, clearing accounts, and undeposited collections	2,890	—	2,890	388
Deferred revenue	2,360	—	2,360	2,314
Other	30,724	559	31,283	32,786
Total liabilities with the public covered by budgetary resources	35,974	559	36,533	35,488
Total	$163,537	$568	$164,105	$142,337

Note 15: Leases

Capital Leases: CDC entered into an agreement with the General Services Administration (GSA) for the lease-purchase of four buildings, including one agreement that commenced in FY 2002. Under this agreement, ownership of the buildings will transfer to CDC at the end of the lease periods. Capitalized assets acquired under capital lease agreements and their related liabilities are reported at the present value of the minimum lease payments. The imputed interest is $84,042 as of September 30, 2002. The increase in the lease asset balance is the addition of the new lease-purchase laboratory building in FY 2002.

Operating leases: CDC also has commitments with the public under four cancelable direct leases for office space, laboratory space, and land. The lease for office space terminates in FY 2005, the laboratory lease terminates in FY 2002, and the two land leases terminate in FY 2002 and FY 2008. In addition, CDC has other lease agreements with GSA and other federal agencies under which CDC paid $32,559 in FY 2002 for office, warehouse, and parking space. CDC's projected rent expense pertaining to these four direct leases is as follows:

Leases

Summary of assets under capital lease	FY 2002	FY 2001
Land and building	$97,082	$69,705
Less: accumulated amortization	(5,384)	(3,843)
Assets under capital lease	$91,698	$65,862

	FY 2002		FY 2001	
Future Minimum Lease Payments	Capital Leases	Operating Leases	Capital Leases	Operating Leases
FY 2003	$ 7,886	$ 256	$ 5,981	$ 694
FY 2004	7,886	239	5,981	209
FY 2005	7,886	204	5,980	209
FY 2006	7,886	154	5,980	202
FY 2007	7,886	154	5,980	154
Later years	139,182	154	96,163	307
Total minimum lease payments	178,612	1,161	126,065	1,775
Less imputed interest	(84,042)		(58,281)	
Total capital lease liability	$ 94,570		$ 67,784	

Note 16: Exchange Revenues

CDC's policy is to establish prices for material and services provided to other federal agencies and private companies at CDC's full cost.

Note 17: Consolidated Gross Cost and Exchange Revenue by Budget Functional Classification

CDC's consolidated gross cost and exchange revenue by budget functional classification for the fiscal years ended September 30, 2002 and 2001, are summarized in the following table:

Consolidated Gross Cost and Exchange Revenue by Budget Functional Classification

	FY 2002			FY 2001
	Health	Natural Resources and Environment	Consolidated Totals	Consolidated Totals
Intragovernmental				
Gross cost	$ 509,545	$ 892	$ 510,437	$ 430,787
Less: exchange revenue	159,491	—	159,491	200,562
Net cost - intragovernmental	350,054	892	350,946	230,225
With the public				
Gross cost	4,194,797	10,512	4,205,309	3,797,762
Less: exchange revenue	3,241	—	3,241	2,200
Net cost - with the public	4,191,556	10,512	4,202,068	3,795,562
Totals				
Gross cost	4,704,342	11,404	4,715,746	4,228,549
Less: exchange revenue	162,732	—	162,732	202,762
Net cost of operations	$4,541,610	$11,404	$4,553,014	$4,025,787

Note 18: Cumulative Effect of Changes in Accounting Principles and Prior Period Adjustment

A. Changes in Accounting

In FY 2002, CDC changed its accounting method related to reporting its biological products inventory from recording these amounts as an asset to expensing them, based on Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*. As of October 1, 2001, CDC's biological products inventory totaled $8,099. According to SFFAS 3, operating materials and supplies may be expensed when purchased: (1) if they are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost beneficial to apply the consumption method of accounting. The biological products inventory meets all of these conditions, and CDC believes this is a more cost effective and preferable method of accounting for these items. The effect of this change on fiscal year 2002 net costs was not material.

CDC also changed its practice for reporting trust fund appropriations to incorporate U.S. Standard General Ledger requirements for trust fund accounting. This adjustment resulted in an increase to Cumulative Results of Operations and a decrease to Unexpended Appropriations of $64,244, resulting in no change to total net position reported on the September 30, 2001, Consolidated Balance Sheet.

In addition, CDC changed the classification of certain funds between CDC programs to agree to the classification in the President's Budget for FY 2002. In FY 2002, all funds directly appropriated to ATSDR were included in the Health budget classification. In the past, all ATSDR funds were assigned to Natural Resources and Environment based on EPA's budget where the funding originated. To ensure consistency with the President's Budget, CDC has reported all directly appropriated ATSDR funds from FY 2001 and FY 2002 to the Health budget classification. This adjustment increased Health's Unexpended Appropriation by $29,739 and decreased Health's Cumulative Results of Operations by ($2,386) with the opposing affect to Natural Resources and Environment's accounts, respectively. This change had no affect on total net position. CDC also adjusted beginning balances of net position for other matters, amounting to $1,782.

B. Prior Period Adjustment

In FY 2002, CDC corrected the classification of a prior year lease from an operating to a capital lease, effective October 1, 2000. This adjustment increased General

Property, Plant, and Equipment, Total Assets, Other Intragovernmental Liabilities, and Total Liabilities on the September 30, 2001, Consolidated Balance Sheet by $47,000, and had no significant affect on net costs or net position as of and for the fiscal years ended September 30, 2001 or 2002.

Note 19: Apportionment Categories of Obligations Incurred

The following table identifies the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, Category B, and Exempt from apportionment.

Apportionment Categories of Obligations Incurred

Health	Obligations Incurred-Direct	Obligations Incurred-Reimbursable	Total Obligations Incurred
Category A	$3,865,724	$226,566	$4,092,290
Category B	1,514,693	26,823	1,541,516
Exempt from apportionment	5,474	—	5,474
Total	$5,385,891	$253,389	$5,639,280

Note 20: Adjustments to the Beginning Balances of Budgetary Resources

Adjustments to budgetary resources represent recoveries and cancellations of expired accounts. Recoveries are cancellations or downward adjustments of prior year obligations that were not outlayed. During FY 2002, CDC recoveries totaled $30,359. The primary source of funding for CDC is the annual disease control research and training appropriation from Congress. That appropriation totaled $4,306,150 for FY 2002, and the majority of those funds are available for obligation only in FY 2002. CDC also received $89,535 in funds available for obligation in FY 2002 for the Hazardous Substances Superfund (which funds ATSDR). During FY 2002, the following funds were permanently not available: $29,136 of the annual appropriation; $11,332 of ATSDR's funding; and $354 of violent crime reduction funding. Of the total appropriation, $261,999 belongs in a multiyear account and is available until expended for equipment and construction and renovation of facilities. CDC also obtained $253,404 of budgetary authority under reimbursable agreements with other federal agencies and the public. Additionally, CDC received a FY 2002 allocation transfer of $989,535 and other transfers totaling $28,000. CDC received gifts and donations totaling $5,546 and cooperative research and development funds totaling $1,328 in FY 2002.

Note 21: Legal Arrangements Affecting Use of Unobligated Balances

CDC does not have any legal matters that would affect the use of unobligated balances.

Note 22: Explanation of Differences between the Statements of Budgetary Resources and the Budget of the United States Government

The Offsetting Receipts line was added to the Statement of Budgetary Resources (SBR) for FY 2002 reporting to reduce the differences in the amounts reported in the audited financial statements and the President's Budget. Differences exist for various reasons including the level of the outlay offset for offsetting receipts. Offsetting receipts are collections into trust fund, special fund, and general receipt accounts. Offsetting receipts can either offset outlays at the agency level or at the governmentwide level.

Because the FY 2002 actual budget amounts were not available at the time this document was published, CDC's FY 2001 Statement of Budgetary Resources was reconciled to FY 2001 actual amounts published in the Budget of the United States Government as required by FASAB Technical Bulletin 2002-02, "Disclosures Required by Paragraph 79(g) of SFFAS 7 *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. No material differences were discovered. OMB will publish FY 2002 actual budget amounts in its FY 2004 Budget of the United States Government, which will be available in 2003.

Note 23: Explanation of the Relationship between Liabilities not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

On the Statement of Financing, the "Other" category of "Components of net cost of operations that will not require or generate resources in the current period" represents a decrease in workers' compensation benefits totaling ($713). Similarly, on the Balance Sheet, the change in "Federal Employees' and Veterans' Benefits" decreased by ($713).

In addition, the "Increase in annual leave liability" on the Statement of Financing under the "Components of net cost of operations that will not require or generate resources in the current period" totaled $5,491. Similarly, the change in accrued leave not covered by budgetary resources for FY 2002 increased by $5,491 (see Note 10).

The "Increase in environmental and disposal liability" reported under "Components of net cost of operations that will not require or generate resources in the current period" is $3,385. Similarly, the "Environmental and disposal costs" reported in the balance sheet reflects an increase of $3,385 from FY 2001.

The Statement of Financing line "Increase in exchange revenue receivable from the public" does not relate to a liability on the balance sheet.

Note 24: Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

CDC received annual allocation transfers from EPA under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 for pollution control and abatement until FY 2000. In accordance with OMB Bulletin 01-09, CDC reported only the proprietary accounts for this ATSDR allocation transfer appropriation from EPA for pollution and control abatement. The "Other" line under the section "Components Not Requiring or Generating Resources" on the Statement of Financing is the difference between the budgetary and proprietary accounts totaling $11,116.